BY MURRAY F. FOSS

Business Expanding Investment in 1960—Expects Higher Sales

BUSINESSMEN expect to increase plant and equipment investment to $37 billion in 1960, or 14 percent over 1959, and they report that their investment outlays will rise throughout 1960. All major industry groups are planning higher outlays this year than last, with manufacturers reporting a rise of $3 billion (25 percent) and other business an additional $1½ billion (7 percent).

These investment programs are accompanied by expectations of sizable increases in sales over the records achieved in 1959. Manufacturers look forward to an 8 percent sales rise, while trade companies foresee a 5 percent increase. The investment and sales anticipations were reported by businessmen in late January and February in the survey conducted annually at this time by the Office of Business Economics and the Securities and Exchange Commission.

Outlays back to 1957 peak

If capital expenditures are carried out according to these plans, investment in current dollars this year will be about as high as it was in 1957, the previous peak, and some $6½ billion above the recession year 1958. A comparison of the latest anticipations with actual outlays in the past few years is given in table 1.

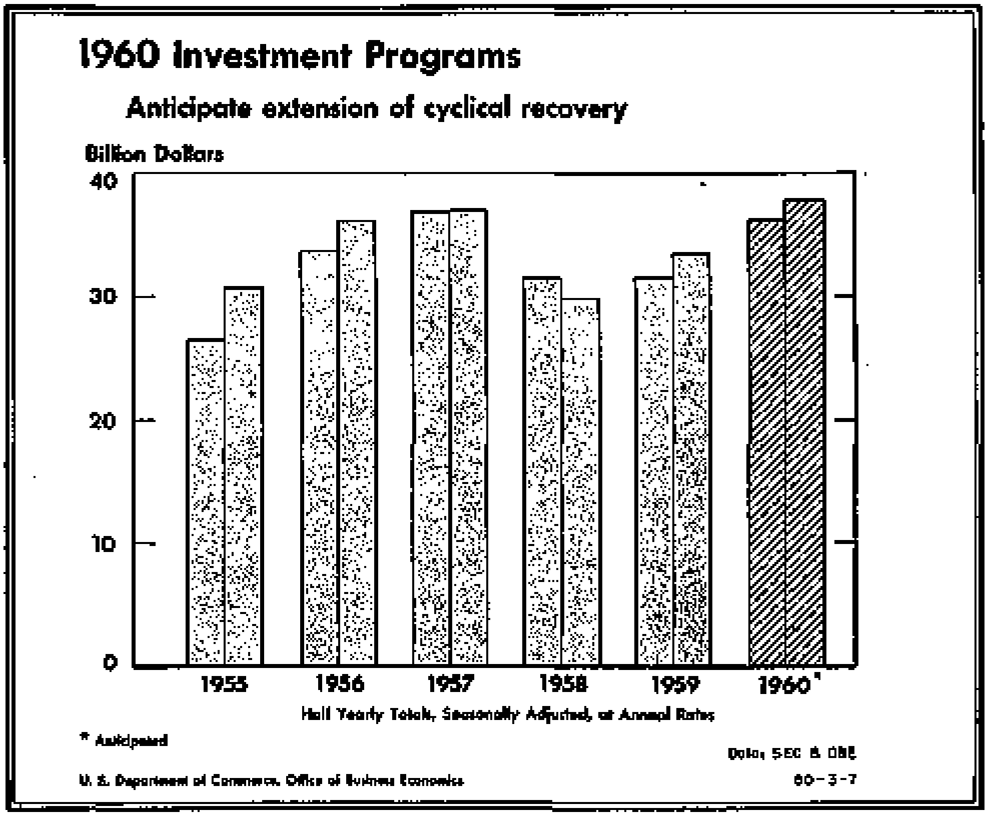
The quarterly data indicate that business is planning to increase its investment from the seasonally adjusted expenditures of $33¼ billion (annual rate) in the final quarter of 1959 to around $35 billion in the current quarter and to move ahead again in the second quarter to $37 billion. The rise in actual spending for the final quarter reflected small increases in manufacturing, mining and commercial investment, offset in part by decreases in the railroad and public utility industries. The fourth quarter figure was below earlier expectations, and probably mirrored one of the consequences of the steel strike.

The first quarter expenditure represents a large upward revision over previous expectations for the same period and reflects planned rises, after seasonal adjustment, in all the major groups except mining. About $1 billion of the $1¾ billion advance is attributable to manufacturing and a large part of this originates in durable goods industries. Every group is contributing to the further seasonally adjusted rise in the second quarter.

With a $37 billion outlay for the whole year 1960 and an average rate of about $36 billion in the first half, a second half seasonally adjusted annual rate of $38 billion is implied.

Recovery in output stimulates investment

The survey thus indicates that this segment of the economy is exhibiting a lagged recovery that has been observed in the other postwar business cycles. The main force behind the currently planned advance is to be found in the rise in overall output and the improvement in profits that have occurred over the past 2 years. Real gross national



product has risen about 10 percent from the recession low in the first quarter of 1958. This economic recovery finds reflection in the rise in profits, and favorable expectations in the near-term, and this advance has increased the volume of internal funds available for investment.

It should be borne in mind that investment expenditures last year and in 1958 were low relative to other postwar years. The ratio of plant and equipment outlays to gross national product, for example, in these 2 years was less than at any other time in the postwar period. In manufacturing particularly, where the main strength of the current advance lies, outlays relative to the stock of plant and equipment in place were likewise at postwar lows.

MANUFACTURERS PACE RISE

Manufacturing firms are recovering from 2 years of comparatively low fixed investment; the planned outlay of $15 billion scheduled for 1960 is more in line with the current high in output. All the major industries are planning increases and in 11 of the 15 groups the percentage rise amounts to one-sixth or more (see table 2). According to the survey, building construction and equipment expenditures are expected to rise by approximately the same proportions.

While the manufacturing rise is substantial and is expected to be the main factor in investment growth later in the year, it does not appear at the moment to be of the same character as the rise in 1955–56. In many instances the rise is from rather low rates, and for a majority of the individual industries the 1960 projections are still lower than they were in 1956–57, which witnessed record investment by most manufacturing industries. Exceptions are electrical machinery and rubber, where new highs are being established, and the steel and stone, clay and glass industries where the annual figures are about the same as previous peaks.

Although the present programs will result in a sizable enlargement of manufacturing capacity, there are several reasons for believing that the supply situation is relatively favorable so that expansion of capacity is not generally of overriding importance in the current programs. Over the past year wholesale prices have been essentially unchanged despite the large rise in GNP; wholesale prices other than farm and food are up only about 1 percent.

The delivery situation has also improved—as seen for example, in the very rapid recovery of the steel industry after the end of the steel strike. Relative to sales, unfilled order backlogs have changed comparatively little since the close of 1958. The rise in durable goods manufacturers' unfilled orders has just about matched the 10 percent growth in sales in the past year, so that the backlog ratio was no higher at the end of 1959 than a year earlier, when it was the lowest year-end ratio since 1949.

Metals picture mixed

After 2 successive years of lower capital outlays, the steel companies expect to invest about $1.7 billion in 1960—two-thirds more than they did in 1959. The quarterly figures indicate a rise in seasonally adjusted expenditures throughout the year; the implied seasonally adjusted rate in the second half is as high as the previous record in the third quarter of 1957.

While some of this industry's planned 1960 investment represents a catching up on work originally scheduled for the second half of 1959, and possibly some replacements deferred from 1958, it should be noted that the industry requires substantial facilities for finishing and raw materials production to complement the large increases in new ingot facilities that were introduced in 1957–58.

Outlays of nonferrous metals producers declined in 1959—a year of strike interrupted production—for the second year in a row. This industry is planning a one-fifth increase in capital spending this year, which would bring outlays to about half those of 1957. This year will see a slight pickup for aluminum producers, attributable mainly to resumption of work on a new plant that was deferred in 1958 because of slack demand. Other nonferrous metals producers have planned larger increases over 1959.

While 1959 witnessed a record in primary aluminum shipments, the industry has had since 1957 a good-sized margin of capacity over output. The gap was narrowed last year—capacity rose only 4 percent while output increased by one-fourth—but operations around year-end were still only slightly over 80 percent of capacity.

Durable goods generally up

Elsewhere among durable goods producers, an unusually large rise has been programed in the motor vehicle industry, although from a comparatively low 1959. Large advances have also been scheduled by the two machinery groups. The seasonally adjusted rate in the first half of 1960 represents a new peak for the electrical group, while planned outlays by the nonelectrical machinery industry imply a new high for the second half of the year. The stone, clay and glass industry, which showed a pronounced gain in investment in

Table 1.—Actual and Anticipated Plant and Equipment Expenditures

[Billions of dollars]

	1957	1958	1959	1960 anticipated	1960 anticipation as percent of actual in 1957	1958	1959
Manufacturing	15.96	11.43	12.07	15.13	95	132	125
Durable goods industries	8.02	5.47	5.77	7.66	96	140	133
Nondurable goods industries	7.94	5.96	6.30	7.47	94	125	119
Mining	1.24	.94	.99	1.00	81	107	102
Railroad	1.40	.75	.92	1.03	73	135	112
Transportation, other than rail	1.77	1.50	2.02	2.14	121	143	106
Public utilities	6.20	6.09	5.67	6.07	98	100	107
Commercial and other	10.40	9.81	10.85	11.66	112	119	107
Total	36.96	30.53	32.54	37.02	100	121	114

Source: U.S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.

1959 favored by record construction, is planning a further rise for the coming year.

Petroleum resumes rise

The integrated petroleum producers expect to increase their capital outlays by 18 percent, following 2 years of lowered investment. If realized, the plans would bring expenditures by this group half way back to the peak of 1957. The advance is widespread, by company.

The breakdown in table 3 of actual and projected investment by type of expenditure, recorded by firms accounting for about four-fifths of 1959 capital outlays, reveals important differences. The large overall increase is for refining, marketing and transportation, with refining showing the largest advance. The rise in refinery expenditures is perhaps unexpected since refinery operations rose only slightly last year over 1958, which saw the lowest rate of refinery capacity utilization in the postwar period.

Only a small rise is projected for production purposes, which account for more than half the aggregate outlays. The industry has been hampered in the recent period by an excess of domestic capacity for crude production, even though imports have been put under a quota. Oil well completions rose slightly in 1959 after declining for 4 consecutive years but the number completed was still substantially below the 1955 peak year.

Other nondurables ahead

Chemical producers are planning a sharp step-up in capital outlays in 1960 and the second half is expected to be at a record rate. The rubber industry was already at a peak in the second half of 1959 and anticipates a further rise in the coming year.

The increases for the textiles and paper industries are less than average for all nondurable goods. Under the influences of increased demand for textiles and apparel, textile investment recovered markedly last year from the low and is expected to increase further this year. However, some falling off after midyear is suggested by the data supplied. Paper companies also increased investment last year and expect more in 1960.

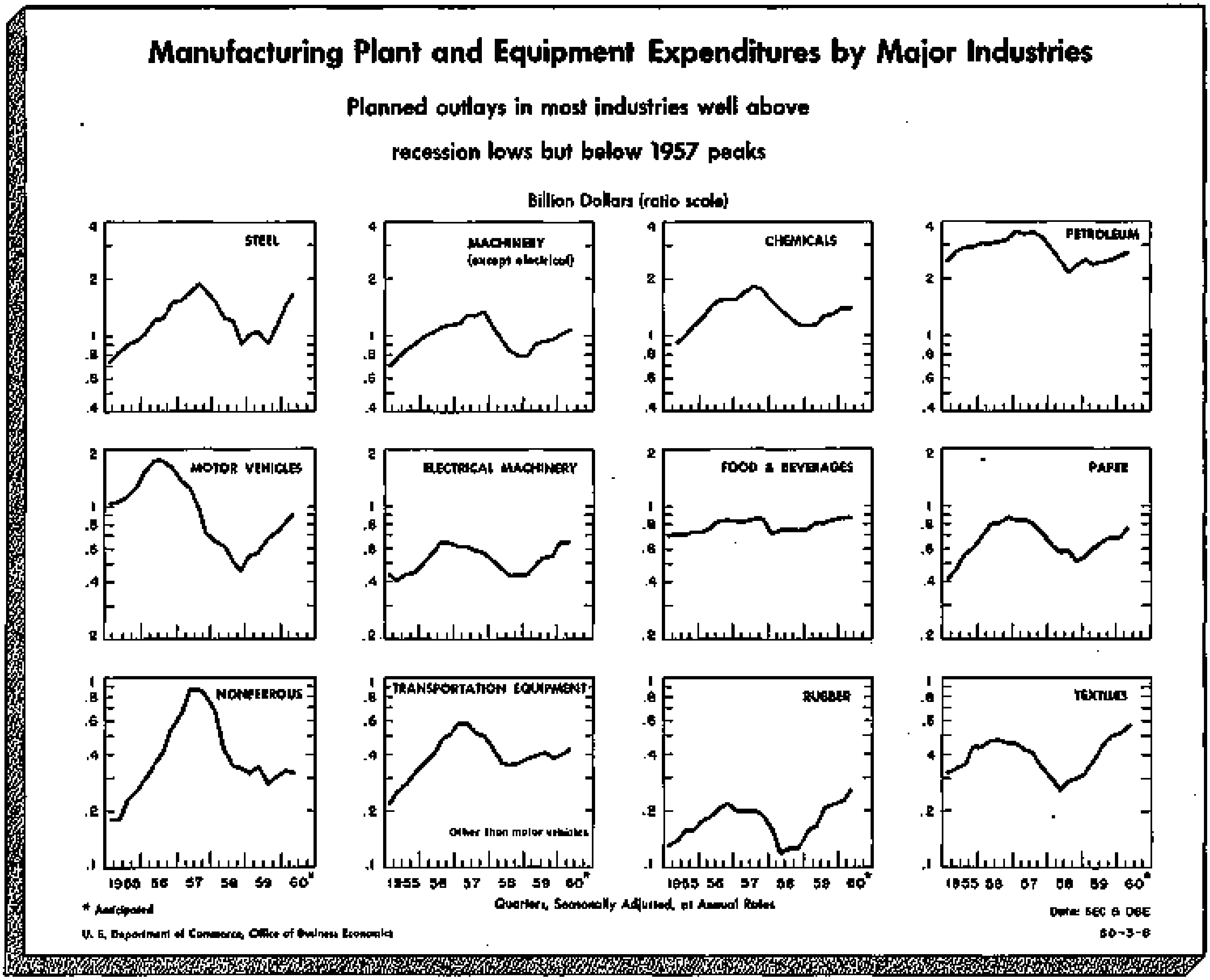


Table 2.—Manufacturing Plant and Equipment Expenditures: 1960 Anticipations as Percent of 1959, and 1957 or 1956 Peak

	1960 as percent of:	
	1959	1957 or 1956
Total	125	95
Durable goods	133	96
Iron and steel	107	100
Nonferrous	110	46
Electrical machinery	142	124
Machinery	130	93
Motor vehicles	160	[1] 93
Other transportation equipment	110	85
Stone, clay, and glass	120	[1] 108
Nondurable goods	119	94
Food and beverage	102	99
Textile	114	[1] 101
Paper	110	86
Chemicals	133	96
Petroleum	118	85
Rubber	124	[1] 129

1. 1956 base.

Source: U.S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.

ADVANCE IN NONMANUFACTURING

Investment by nonmanufacturing industries is expected to increase $1½ billion in 1960 to a record $22 billion. The overall gain is about the same as that in 1959.

This year is expected to see another large increase in capital expenditures by domestic airlines as they move ahead on their programed acquisition of turbine-powered aircraft. The pattern within this year is one of a very high rate scheduled to be achieved in the first half, followed by a decrease. This depends, of course, to some degree in the timing of actual deliveries.

According to data compiled by the Air Transport Association, domestic carriers have scheduled a doubling of turbo-jet deliveries from 1959 to 1960 and a sizable decrease in deliveries of the smaller capacity, and much-less-costly turbo-props. Because progress payments are customarily made for this type of equipment the deliveries in a buildup stage of production lag somewhat behind actual expenditures.

Last year trucking companies reported a large increase, halting a 3-year decline in investment. Trailer production rose about 50 percent from 1958 to 1959 while domestic truck sales were up more than one-third; in both cases early 1960 figures showed sizable gains over a year ago. For 1960, trucking companies have scheduled a further rise in equipment acquisitions. Bus companies' investment programs, which have changed little in recent years, indicate a small rise in the year ahead. Independent oil pipeline companies and marine transportation firms are scheduling moderate increases in expenditures for 1960.

Utilities investment large

Capital outlays by the electric utilities fell about 10 percent last year, the largest annual reduction in the postwar period. This stemmed from the earlier cutbacks in new capacity additions that were brought about by the slowing down and leveling of electric energy output in late 1957 and early 1958.

With power production recovering in mid-1958 and currently at a record, the electric companies have increased their investment and are planning a 7 percent advance in outlays over 1959. The quarterly pattern points to a small rise in the first half of this year, followed by a strong advance in the second.

Evidence of the advance is further seen in new data recently compiled through this survey pertaining to the value of work initiated. The total value of new work started—regardless of anticipated completion date—declined quite markedly from 1957 to 1959 but is expected to increase substantially in this year. Actual expenditures show much less fluctuation than the projects initiated because, with a very long lead time, outlays in any given year are made not only on new projects in the same year but also on those initiated one and two years earlier.

Table 3.—Expenditures of Petroleum Manufacturing Firms, by Type of Outlays

[Billions of dollars]

	1959	1960 anticipated
Production	1.50	1.56
Transportation	.16	.19
Refining	.42	.68
Marketing	.35	.44
Other [1]	.07	.07
Total	2.49	2.93

1. Also includes expenditures of manufacturers of coal products.

Source: U.S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.

Newly started projects in recent years (in billions of dollars) are as follows:

1957	$4.4
1958	3.4
1959	3.2
1960 anticipated	4.0

The gas companies expect a 7 percent rise this year, after changing little from 1958 to 1959. The quarterly pattern of these expenditures has been quite erratic. Seasonally adjusted outlays fell in the third quarter of 1959 and again rather sharply in the final quarter of the year, as a result of the steel strike. A substantial pickup has been scheduled in the first half of 1960, followed by some reduction in the second half.

Moderate increase for railroads

Railroad investment is importantly affected by traffic and earnings—both of which were hard hit in the second half of 1959. The railroads at present report only a moderate increase for this year. In 1959, net railway operating income was lower than in 1958 and the lowest since 1949.

The rise is attributable primarily to outlays for road; equipment expenditures are not yet programed to increase. Expenditures for equipment—in large part freight cars—had fallen to a recession low at the end of 1958 but were rapidly increased through the third quarter of 1959 in line with the recovery of industrial output. Fourth quarter 1959 deliveries were cut sharply but a good recovery in outlays has been scheduled for the first and second quarters of this year.

A large leasing program, which is important in this rise, is expected to be completed this summer, and a decline in expenditures in this particular segment is suggested for the second half of 1960. It should be noted in passing that previous surveys have found the railroads to be conservative regarding second-half year outlays.

Rise in commercial investment

The upturn in capital expenditures by retail firms continued through 1959 at an accelerated pace. The seasonally adjusted outlays in the final quarter of 1959 equaled the previous record reached in 1956 although physical volume has not yet matched the earlier peak.

Retailers' plans for 1960, as well as those for companies in the service industries, call for a further advance over 1959 though in this area some of the actual outlays are not planned very far ahead. However, in the large operations, development of new shopping centers is continuing, and this provides an important stimulus to investment by both commercial firms and real estate developers.

The communications firms have programed an increase to a new record in 1960. Actual outlays in 1959 were $2¾ billion, slightly higher than in 1958.

RESULTS VERSUS ANTICIPATIONS

Last year at this time business projected a 4-percent rise in investment over 1958. Final figures for 1959 show that actual expenditures were up 6½

Table 4.—Expenditures on New Plant and Equipment by U.S. Business,[1] 1957–60

[Millions of dollars]

	1957	1958	1959	1960 [2]	1958 Jan.-Mar.	1958 Apr.-June	1958 July-Sept.	1958 Oct.-Dec.	1959 Jan.-Mar.	1959 Apr.-June	1959 July-Sept.	1959 Oct.-Dec.	1960 Jan.-Mar. [2]	1960 Apr.-June [2]
Manufacturing	15,959	11,433	12,067	14,133	2,858	2,929	2,664	2,982	2,456	2,981	3,019	3,571	3,046	3,737
Durable goods industries	8,022	5,469	5,773	7,662	1,441	1,385	1,257	1,376	1,144	1,450	1,437	1,742	1,494	1,830
Primary iron and steel	1,722	1,192	1,036	1,738	315	334	285	258	208	273	219	336	398	434
Primary nonferrous metals	814	441	318	372	151	107	87	96	71	86	70	86	75	79
Electrical machinery and equipment	600	450	619	742	106	118	104	123	91	122	134	272	138	183
Machinery, except electrical	1,275	915	909	1,186	255	234	201	225	170	223	231	270	237	272
Motor vehicles and equipment	1,068	568	641	1,020	143	155	137	123	130	149	180	181	178	236
Transportation equipment, excluding motor vehicles	544	370	390	405	93	89	88	100	82	99	103	106	88	118
Stone, clay, and glass products	572	300	520	684	102	101	84	112	113	135	133	148	140	158
Other durable goods [3]	1,429	1,135	1,434	1,400	276	269	271	319	280	364	367	425	330	369
Nondurable goods industries	7,937	5,964	6,294	7,470	1,437	1,544	1,407	1,656	1,312	1,571	1,582	1,829	1,552	1,891
Food and beverages	880	743	825	838	170	202	183	187	185	223	201	217	208	236
Textile-mill products	408	288	412	470	73	69	66	80	78	100	103	133	123	158
Paper and allied products	811	578	550	606	141	146	151	140	124	153	108	136	161	194
Chemicals and allied products	1,724	1,320	1,225	1,642	340	352	304	324	200	305	310	363	318	358
Petroleum and coal products	3,453	2,431	2,491	2,930	587	629	554	661	578	619	620	725	580	709
Rubber products	200	134	190	254	37	30	32	35	35	45	51	60	62	67
Other nondurable goods [4]	461	471	541	640	109	116	117	128	112	131	121	147	141	176
Mining	1,243	941	987	1,004	225	239	223	254	213	243	256	275	214	260
Railroads	1,396	754	923	1,015	250	202	149	153	169	262	282	220	245	300
Transportation, other than rail	1,771	1,500	2,022	2,144	393	369	320	418	495	637	540	547	545	618
Public utilities	6,195	6,088	5,657	6,064	1,237	1,511	1,623	1,717	1,190	1,474	1,465	1,614	1,191	1,625
Communications	3,032	2,615	2,667	11,555	659	683	693	670	586	673	683	726	2,705	3,034
Commercial and other [5]	7,366	7,196	8,210		1,662	1,818	1,844	1,871	1,834	2,123	2,061	2,123		
Total	36,962	30,526	32,541	37,016	7,326	7,751	7,427	8,013	6,905	8,423	8,331	8,994	7,947	9,464

					Seasonally Adjusted at Annual Rates [Billions of dollars]									
Manufacturing					13.30	11.53	10.66	10.56	11.20	11.80	12.25	12.67	13.89	14.67
Durable goods industries [6]					6.53	5.57	5.16	4.96	5.20	5.74	5.83	6.16	6.88	7.23
Primary iron and steel					1.62	1.27	1.20	.90	1.02	1.07	.90	1.14	1.48	1.65
Primary nonferrous metals					.58	.44	.35	.34	.22	.35	.28	.31	.33	.32
Electrical machinery and equipment					.52	.47	.43	.44	.44	.49	.55	.60	.60	.66
Machinery, except electrical					1.11	.96	.84	.79	.79	.91	.95	.97	1.01	1.10
Motor vehicles and equipment					.66	.63	.52	.46	.56	.58	.69	.74	.83	.91
Transportation equipment, excluding motor vehicles					.43	.36	.35	.36	.33	.39	.41	.38	.40	.48
Nondurable goods industries [6]					6.82	5.96	5.70	5.73	5.64	6.00	6.42	6.71	7.01	7.34
Food and beverages					.71	.78	.70	.76	.77	.83	.82	.80	.88	.88
Textile-mill products					.30	.26	.20	.30	.33	.37	.45	.50	.52	.57
Paper and allied products					.53	.58	.50	.62	.55	.61	.60	.60	.00	.77
Chemicals and allied products					1.61	1.39	1.27	1.17	1.14	1.17	1.30	1.32	1.41	1.40
Petroleum and coal products					2.80	2.43	2.17	2.38	2.53	2.40	2.47	2.67	2.60	2.78
Mining					1.00	.92	.88	.97	.95	.94	1.01	1.04	.96	1.01
Railroads					1.02	.77	.63	.59	.63	1.06	1.28	.85	.97	1.13
Transportation, other than rail					1.69	1.40	1.20	1.62	1.72	2.06	2.17	2.15	2.26	2.43
Public utilities					5.87	5.97	6.10	6.29	5.80	5.82	5.68	5.48	5.80	6.03
Commercial and other [5]					9.53	9.73	9.85	9.96	10.33	10.67	11.05	11.19	11.42	11.75
Total					32.41	30.32	29.61	29.97	30.62	32.51	34.35	33.58	35.32	36.81

1. Data exclude expenditures of agricultural business and outlays charged to current account.
2. Estimates are based on anticipated capital expenditures reported by business in late January and February 1960. The estimates for the first and second quarters of 1960 have been adjusted when necessary for systematic tendencies in anticipatory data.
3. Includes fabricated metal products, lumber products, furniture and fixtures, instruments, ordnance and miscellaneous manufactures.
4. Includes apparel and related products, tobacco, leather and leather products, and printing and publishing.
5. Includes trade, service, finance, and construction. Figures for 1960 and seasonally adjusted data also include communications.
6. Includes industries not shown separately.

NOTE.—Data for earlier years were published in the June 1958 and March 1959 *Survey of Current Business*.

Sources: U.S. Department of Commerce, Office of Business Economics, and Securities Exchange Commission.

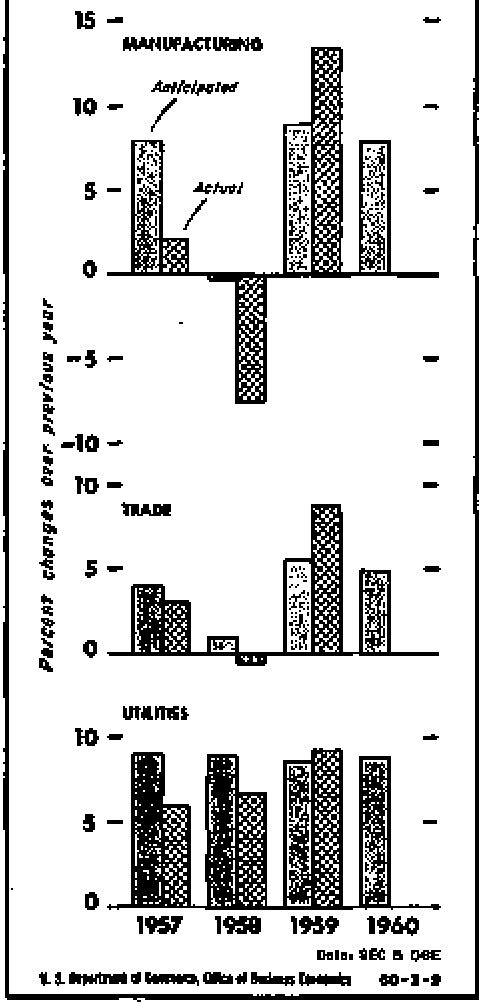
percent. The results of the survey were thus again good, with the difference being less than the average for the postwar period.

Less-than-anticipated outlays were made by many manufacturing industries, where the difference was less than 2 percent, and in public utilities—where the deviation was about 8 percent. All other major groups spent more than planned. In dollar terms, the commercial group, which is a special problem area in these anticipatory surveys, was responsible for a difference of more than $1 billion between actual and anticipated expenditures.

There is reason to believe that had it not been for the tie-up of the steel flow and its resultant direct and indirect effects, last year's investment might have been somewhat larger. Aggregate spending in the first half of 1959 was at a seasonally adjusted annual rate of $31.6 billion, or about the same as the figure anticipated for this period one year ago. However, the rapid improvement in business that had occurred in the first half caused business to raise its sights somewhat regarding investment in the second half; the anticipated 1959 spending as published in the September *Survey* showed a 9 percent rise over 1958.

Actual spending for 1959 fell about midway between the March and September anticipations. Part of the difference between these two anticipations reflects the tendencies of smaller firms to understate plans in their earlier reported programs.[1] Actual shortfalls in the second half from the summer anticipations were pronounced in the case of manufacturing, especially in the case of primary metals, electric and gas utilities and railroads.

Within manufacturing, most of the durable goods industries spent less than planned, with the stone, clay and glass and miscellaneous durable group being exceptions. In nondurables, petroleum and chemical firms fell significantly short while all other groups exceeded expectations. The largest firms had projected a rise for last year but fell short by a considerable margin, actually spending somewhat less than in 1958. The other firms invested more than the small increases that were anticipated in the early reporting.



Higher Sales in 1960 Anticipated by Businessmen

Higher Sales in 1960 Anticipated

BUSINESSMEN in all major lines hold favorable sales anticipations for 1960. The available data are summarized in table 5. Manufacturing firms expect 1960 sales to be 8 percent higher than those of 1959, with durable goods producers showing a 10 percent rise and nondurable goods companies projecting a 6 percent rise. In durables, the largest anticipated rise is in the iron and steel industry, but this is from an abnormally low base. The expectations of most of the other durable goods industries are not greatly different relatively from the durable average, though aircraft producers foresee only a slight gain.

Among nondurables producers, the paper and chemical companies anticipate larger-than-average advances while food and beverage, textile and petroleum firms expect relatively smaller gains.

As of this January, the seasonally adjusted annual rate of manufacturers' sales was running about 3½ percent above the 1959 total, so that in view of the annual 1960 sales forecast a further rise is implied after the beginning of the year.

The same situation holds for both durable and nondurable sales, though there is considerable variation by industry. In steel, for example, no

(*Continued on page 20*)

[1] Since 1957, an upward adjustment has been made in the annual manufacturing programs to allow for this tendency. The reporting samples in the commercial and nonrail transportation industries have been greatly enlarged in recent years. Experience with the new samples has indicated that small firms in these areas also tend to understate full year programs. For this reason, an upward adjustment was introduced in the 1960 programs.

Table 5.—Actual Sales Increases, 1958–59 and Anticipated Increases, 1959–60, by Industry

	Actual 1958–59	Anticipated 1959–60
	(Percent)	
Manufacturing	13	8
Durable goods	17	10
Iron and steel	14	26
Nonferrous metals	20	8
Electrical machinery	13	11
Machinery, except electrical	21	10
Stone, clay and glass	13	7
Nondurable goods	10	6
Food and beverage	4	6
Textile mill products	18	3
Paper and allied products	11	9
Chemicals and allied products	11	8
Petroleum products	12	4
Trade	9	5
Retail	8	6
Wholesale	11	4
Public utilities	[1] 9	9
Electric	[1] 10	7
Gas	[1] 11	12

1. Preliminary.

Source: U.S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.

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